

Sales of tangible personal property, which property, to the extent not first subjected to a use for which it was purchased, as an ingredient or constituent, goes into and forms a part of tangible personal property subsequently the subject of a "sale at retail," are not sales at retail, provided that the property purchased is deemed to be purchased for the purpose of resale. See 86 Ill. Adm. Code 130.210. (This is a GIL).

June 29, 2001

Dear Xxxxx:

This letter is in response to your letter dated April 4, 2001 that we received on April 17, 2001. The nature of your letter and the information you have provided require that we respond with a General Information Letter, which is designed to provide general information, is not a statement of Department policy and is not binding on the Department. See 2 Ill. Adm. Code 1200.120(b) and (c), which can be accessed at the Department's Website at <http://www.revenue.state.il.us/legalinformation/regs/part1200>.

In your letter, you have stated and made inquiry as follows:

We hereby request a letter ruling regarding a sales tax exemption for the purchase of drag reducer. Drag reducer is a product we purchase which is injected into our pipeline to reduce flow resistance. This product is never removed from the product in the pipeline and has to be frequently reintroduced, hence it 'becomes' part of a tangible product that is later the subject of sale at retail.

AAA is a petroleum products transmission pipeline in the state of Illinois. Our clients' purchase the right to transmit their products through our pipelines. The purchase of drag reducer is required to aid in the product flow and is physically incorporated into the product.

For further assistance, please call.

Although you do not mention it by name, you appear to be inquiring about the "resale" exemption from sales tax based upon your assertion that your product becomes a part of a tangible product that is later sold at retail. The information contained in your letter contains a statement that the drag reducer becomes a part of an item of tangible personal property that will be sold at retail. Assuming that this was the case, the resale exemption would apply to the extent an item is later sold as part of an intentionally produced product or byproduct of manufacturing. See 86 Ill. Adm. Code 130.210, enclosed.

In our recent telephone conversation, you said that approximately 90%, or slightly more, of the item is incorporated into the oil that is later sold at retail. So long as this is the case, you may claim the resale exemption by submitting a blanket percentage-use Certificate of Resale to your vendor that states that 90% of your purchases of the drag-reducer are exempt from tax as purchases for resale and 10% are taxable as purchases for use. See 86 Ill. Adm. Code 130.1405(c)(2).

I hope this information is helpful. The Department of Revenue maintains a Web site, which can be accessed at www.revenue.state.il.us. If you have further questions related to the Illinois sales tax laws, please contact the Department's Taxpayer Information Division at (217) 782-3336.

If you are not under audit and you wish to obtain a binding Private Letter Ruling regarding your factual situation, please submit all of the information set out in items 1 through 8 of Section 1200.110(b).

Very truly yours,

Karl W. Betz
Associate Counsel

KWB:msk
Enc.